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COMMISSION ON TRANSNATIONAL CORPORATIONS
Sixteenth session
2-11 April 1990
Item 2 of the provisional agenda

ADOPTION OF THE AGENDA AND ORGANIZATION OF WORK

Provisional agenda

1. Election of officers.

2. Adoption of the agenda and organization of work.

3. Recent developments related to transnational corporations and international economic relations.

4. Work related to the code of conduct on transnational corporations and other international arrangements and agreements:

   (a) Code of conduct on transnational corporations;

   (b) Other international, regional and bilateral arrangements and agreements related to transnational corporations.

5. International standards of accounting and reporting.

6. Transnational corporations in South Africa and Namibia:

   (a) Report and recommendations of the Panel of Eminent Persons established to conduct the second public hearings on the activities of transnational corporations in South Africa and Namibia;

   (b) Responsibilities of home countries with respect to the transnational corporations operating in South Africa and Namibia in violation of the relevant resolutions and decisions of the United Nations.

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7. Transnational corporations and issues relating to the environment.

8. Role of transnational corporations in services, including transborder data flows:

   (a) Role of transnational banks;

   (b) Role of transnational corporations in other services.

9. Ongoing and future research.

10. Strengthening the negotiating capacity of developing countries in their dealings with transnational corporations.

11. Comprehensive information system.

12. Activities of the United Nations Centre on Transnational Corporations.

13. Question of expert advisers.

14. Provisional agenda for the seventeenth session of the Commission.

15. Adoption of the report of the Commission on its sixteenth session.

Annotations

1. Election of officers

The proceedings of the Commission on Transnational Corporations are governed, mutatis mutandis, by the rules of procedure of the Economic and Social Council. Rule 18 thereof provides that the Bureau shall consist of five officers. The Commission may wish to follow the practice adopted at its previous sessions and elect a Chairman, three Vice-Chairmen and a Rapporteur.

2. Adoption of the agenda and organization of work

The provisional agenda and documentation for the sixteenth session of the Commission were approved by the Commission at its fifteenth session and by the Economic and Social Council in decision 1989/124.

3. Recent developments related to transnational corporations and international economic relations

At its first regular session of 1989, the Economic and Social Council requested the Secretary-General to submit to the Commission at its sixteenth session a report analysing trends concerning transnational corporations and international economic relations and to recommend ways and means of increasing the operations of transnational corporations in developing countries. The Council requested the Secretary-General to include in that report an assessment of the

potential impact of the regional economic integration processes taking place among developed countries on the future operations of transnational corporations, particularly in developing countries, and, in turn, the impact on regional economic integration processes in developing countries (Council resolution 1989/22).

The Council requested the Secretary-General to conduct a study on home-country legislation on investment by transnational corporations in the least developed countries and invited the Secretary-General to study further the impact of levels of official development assistance, balance-of-payment support, technical assistance and other forms of assistance for the least developed countries on flows of foreign direct investment to those countries (Council resolution 1989/23).

At its first regular session of 1989, the Council also requested the Secretary-General to conduct a study of the experience of joint ventures among national corporations from different developing countries and their contribution to the development process in developing countries, including an analysis of the possibilities and potentialities offered in this field by regional economic integration and co-operation among developing countries, and to include in the study, specific proposals on ways and means of promoting that form of co-operation and to report on the matter to the Commission at its sixteenth session (Council resolution 1989/21).

Documentation

Report of the Secretary-General on recent developments related to transnational corporations and international economic relations (E/C.10/1990/2)

Report of the Secretary-General on transnational corporations and development: policies to stimulate the transfer of investment capital, technology and skills to developing countries in the 1990s (E/C.10/1990/3)

Report of the Secretary-General on home country incentives for investment in least developed countries (E/C.10/1990/4)

4. Work related to the code of conduct on transnational corporations and other international arrangements and agreements

(a) Code of conduct on transnational corporations

At its first regular session of 1989, the Council adopted a resolution on the code of conduct on transnational corporations. The Council requested the Chairman of the special session of the Commission on Transnational Corporations, in co-ordination with the Executive Director of the Centre, to intensify consultations on the code of conduct on transnational corporations, with a view to resuming negotiations on the code in the context of the special session of the Commission on Transnational Corporations, possibly no later than the end of 1990 (Council resolution 1989/24).

Documentation

Report of the Secretary-General on the progress made in the work on the code of conduct on transnational corporations (E/C.10/1990/5)

(b) Other international, regional and bilateral arrangements and agreements related to transnational corporations

At its fifteenth session, the Commission requested the Secretary-General to update the report on international arrangements and agreements related to transnational corporations for its sixteenth session (E/1989/28/Rev.1, para. 70).

Documentation

Report of the Secretary-General on international arrangements and agreements related to transnational corporations (E/C.10/1990/6)

5. International standards of accounting and reporting

At its resumed second regular session of 1982, the Council decided to establish an Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (Council resolution 1982/67). At its fifteenth session, the Commission approved the provisional agenda and documentation for the eighth session of the Group (Commission decision 1989/1).

Documentation

Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its eighth session (E/C.10/1990/7)

6. Transnational corporations in South Africa and Namibia:

(a) Report and recommendations of the Panel of Eminent Persons established to conduct the second public hearings on the activities of transnational corporations in South Africa and Namibia

In its resolution 1988/56 of 27 July 1988, the Council requested the Secretary-General to establish a panel of eminent persons to conduct public hearings on the activities of transnational corporations in South Africa and Namibia, with a view to further mobilizing public opinion to induce home Governments and transnational corporations to cease any kind of collaboration with the South African régime. In that resolution and in Council resolution 1989/27, the Secretary-General was requested to report to the Commission, the Economic and Social Council, the General Assembly and the Security Council.

The second public hearings on the activities of transnational corporations in South Africa and Namibia were held at the United Nations Office at Geneva from 4 to 6 September 1989. The report and recommendations of the Panel are contained in the annex to the note by the Secretary-General on the subject (A/44/576-S/20867), which was submitted to the General Assembly at its forty-fourth session.

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The General Assembly, at its forty-fourth session, adopted a resolution on the policies of apartheid of the Government of South Africa, in which, inter alia, the General Assembly, taking note of the recommendations made in the report of the Panel of Eminent Persons, called upon Governments, intergovernmental organizations, the specialized agencies of the United Nations, non-governmental organizations and the public at large to take full account of those recommendations (Assembly resolution 44/27 D).

Documentation

Report and recommendations of the Panel of Eminent Persons established to conduct the second public hearings on the activities of transnational corporations in South Africa and Namibia (A/44/576-S/20867, annex)

(b) Responsibilities of home countries with respect to the transnational corporations operating in South Africa and Namibia in violation of the relevant resolutions and decisions of the United Nations

At its first regular session of 1989, the Council requested the Secretary-General to prepare an updated study on the responsibilities of home countries with respect to the transnational corporations operating in South Africa and Namibia in violation of the relevant resolutions and decisions of the United Nations (Council resolution 1989/27).

Documentation

Report of the Secretary-General on measures relating to trade, finance, investment and technology transfer to South Africa (E/C.10/1990/8)

7. Transnational corporations and issues relating to the environment

At its fifteenth session, the Commission requested the Secretary-General to report to it at its sixteenth session on transnational corporations and sustainable development (E/1989/28/Rev.1, para. 118).

At its first regular session of 1989, the Council requested the Secretary-General to conduct an analytical study of the main sectors of activity that have adverse effects on environmental preservation and the factors that determine the allocation of activities between developed and developing countries.

The Council also requested the Secretary-General to continue to develop ways and means of strengthening the participation of those enterprises in efforts to preserve and protect the environment, including, in particular, the elaboration of a set of criteria and operational principles, and to identify ways in which developing countries in particular might benefit from the experience of other countries in their efforts to protect the environment in relation to the activities of industrial enterprises, including transnational corporations.

The Council requested the Secretary-General to gather data on existing sources of information on technologies that are environmentally hazardous and on the availability of alternative technologies, and to make recommendations on ways and means of increasing and facilitating the effective transfer of alternative technologies to developing countries.

The Secretary-General was also asked to examine the feasibility of establishing a fund financed by voluntary contributions from transnational corporations and devoted to supporting the efforts of developing countries to protect the environment, and to submit to the Commission at its sixteenth session a report on the implementation of the above requests (Council resolution 1989/25).

Documentation

Report of the Secretary-General on transnational corporations and issues relating to the environment (E/C.10/1990/10)

8. Role of transnational corporations in services, including transborder data flows:

(a) Role of transnational banks

At its first regular session of 1989, the Council requested the Secretary-General to prepare for submission to the Commission at its sixteenth session a report on the present and potential activities of transnational banks related to the external indebtedness of developing countries and certain other countries with serious debt-servicing problems, taking into account the recent proposals that emphasize, inter alia, reduction of the stock and service of commercial debt (Council resolution 1989/28).

Documentation

Report of the Secretary-General on transnational banks and external indebtedness (E/C.10/1990/11)

(b) Role of transnational corporations in other services

At its fifteenth session, the Commission requested the Secretary-General to conduct further in-depth research and strengthen technical co-operation in the area of services, taking into account the deliberations of the Commission, and to submit a report thereon to the Commission at its sixteenth session (E/1989/28/Rev.1, para. 153).

Documentation

Report of the Secretary-General on transnational service corporations and the Uruguay Round (E/C.10/1990/12)

9. Ongoing and future research

At its fifteenth session, the Commission took note of the report of the Secretary-General containing a summary of selected research studies (E/C.10/1989/11) and requested the Secretary-General, in preparing the report for submission to the Commission at its sixteenth session, to take into account the views expressed by delegations (E/1989/28/Rev.1, para. 107).

Documentation

Report of the Secretary-General on trade-related aspects of intellectual property rights and trade-related investment measures (E/C.10/1990/13)

Report of the Secretary-General on the activities of the United Nations Centre on Transnational Corporations and the activities of the joint units established with the regional commissions (E/C.10/1990/16)

Report of the Secretary-General on non-conventional transnational corporations (E/C.10/1990/18)

10. Strengthening the negotiating capacity of developing countries in their dealings with transnational corporations

At its fifteenth session, the Commission took note of the reports of the Secretary-General on the activities of the United Nations Centre on Transnational Corporations and the activities of the joint units established with the regional commissions (E/C.10/1989/3) and on the experience gained in technical co-operation activities with respect to policies of developing countries for the acquisition of foreign technology (E/C.10/1989/10), reaffirmed the importance it attached to the Centre's technical co-operation programme and requested the Secretary-General to submit to the Commission at its sixteenth session a report on another aspect of the experience gained in technical co-operation activities (E/1989/28/Rev.1, para. 101).

At its first regular session of 1989, the Council requested the Secretary-General to prepare a report containing, inter alia, recommendations on alternative strategies that would create a mutually beneficial framework and lead to concrete measures to encourage transnational corporations to respond positively to improvements in the investment climate in Africa and to upgrade the report prepared for the mid-term review of the implementation of the United Nations Programme of Action for African Economic Recovery and Development 1986-1990 (A/43/500/Add.2), to provide detailed and comprehensive coverage of foreign direct investment in Africa on a sector-by-sector basis and to report thereon to the Commission at its sixteenth session (Council resolution 1989/26).

Documentation

Report of the Secretary-General on foreign direct investment in Africa and strategies to encourage transnational corporations to respond positively to the improved investment climate (E/C.10/1990/9)

Report of the Secretary-General on the experience gained in technical co-operation activities with respect to the formulation and implementation of foreign investment policies (E/C.10/1990/14)

Report of the Secretary-General on the activities of the United Nations Centre on Transnational Corporations and the activities of the joint units established with the regional commissions (E/C.10/1990/16)

11. Comprehensive information system

At its fifteenth session, the Commission requested the Secretary-General to report to it at its sixteenth session on the experience gained in the development of the comprehensive information system, taking into account the views expressed by delegations at the fifteenth session (E/1989/28/Rev.1, para. 159).

Documentation

Report of the Secretary-General on information services provided by the United Nations Centre on Transnational Corporations to developing countries (E/C.10/1990/15)

Report of the Secretary-General on the activities of the United Nations Centre on Transnational Corporations and the activities of the joint units established with the regional commissions (E/C.10/1990/16)

12. Activities of the United Nations Centre on Transnational Corporations

At its fifteenth session, the Commission requested the Secretary-General to submit a report to the Commission at its sixteenth session on the activities of the Centre, including the activities of the joint units established with the regional commissions.

The Commission also requested the Secretary-General to provide the Commission at its sixteenth session with the draft programme on transnational corporations of the medium-term plan for the period 1992-1997. In that regard, the Secretary-General was asked to take into account in the future work of the Centre the views expressed by delegations at the fifteenth session (E/1989/28/Rev.1, para. 53).

In this context, the attention of the Commission should be drawn, in particular, to the following provisions of General Assembly resolution 44/194 on programme planning. In section I, paragraph 4, of the resolution, the General Assembly invited the functional, sectoral and regional intergovernmental bodies to consider, in a timely manner, the draft medium-term plan and programme budget proposals within their areas of responsibility, in order that their recommendations might be taken into account by the Secretary-General when preparing his proposed medium-term plan and programme budget. In section II, paragraph 3, of the same resolution, the General Assembly requested all relevant entities and bodies to continue to make every effort to set and apply priorities in accordance with the Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation.

In addition, the General Assembly, at its forty-fourth session, adopted the programme budget of the United Nations Centre on Transnational Corporations for the biennium 1990-1991 (A/44/6, sect. 9) and endorsed the conclusions and recommendations made thereon by the Committee for Programme and Co-ordination at its twenty-ninth session (A/44/16, paras. 154-159).

Documentation

Report of the Secretary-General on the activities of the United Nations Centre on Transnational Corporations and the activities of the joint units established with the regional commissions (E/C.10/1990/16)

Note by the Secretariat on the draft programme on transnational corporations for the medium-term plan for the period 1992-1997

13. Question of expert advisers

At its sixth session, the Commission decided on the modalities for the selection, rotation and participation of expert advisers (E/C.10/75, paras. 110-112).

At its sixteenth session, in accordance with those modalities, the Commission will elect expert advisers who will serve until the end of its eighteenth session.

Documentation

Note by the Secretariat on the question of expert advisers (E/C.10/1990/17)

14. Provisional agenda for the seventeenth session of the Commission

In accordance with the provisions of paragraph 3 of Economic and Social Council resolution 1894 (LVII), the Commission will have before it the draft provisional agenda for its seventeenth session, together with a list of the documents to be submitted for each agenda item and the legislative authority for their preparation, in order to enable the Commission to consider those documents from the point of view of their contribution to the work of the Commission, their urgency and their relevance in the light of the current situation.

In resolution 1979/41, the Council decided that the provisional agenda for its subsidiary bodies, together with the list of requested documentation, should be submitted to the Council for its review, in order, inter alia, to establish greater consistency between the requests for documentation and the medium-term plan and the programme budget.

By resolution 1989/114 on further measures for the implementation of Council resolution 1988/77 on the revitalization of the Economic and Social Council, the Council urged its subsidiary bodies to implement fully resolution 1979/41 in submitting to the Council for consideration their provisional agenda together with the list of requested documentation, with a view to ensuring greater consistency in requests for documentation and improving reporting procedures. In this connection,

it will be recalled that the Council urged all its subsidiary bodies to exercise the utmost restraint in making requests of the Secretary-General for new reports and studies and to implement fully the decisions of the Council and of the General Assembly with respect to the control and limitation of documentation (Council resolutions 1981/83 and 1982/50).

By decision 1983/163, the Council decided to request the Secretary-General to bring to the attention of intergovernmental and expert bodies, before decisions are adopted, any request for documentation that exceeds the ability of the Secretariat to prepare and process on time and within its approved resources and to draw the attention of intergovernmental bodies to areas where duplication of documentation is likely to occur and/or where opportunities for integrating or consolidating documents that deal with related or similar themes might exist, with a view to rationalizing documentation.

Documentation

Draft provisional agenda for the seventeenth session of the Commission on Transnational Corporations

15. Adoption of the report of the Commission on its sixteenth session

The Commission will adopt its report to the Economic and Social Council.

Attention is drawn to Council resolution 1989/114 on further measures for the implementation of Council resolution 1988/77 on the revitalization of the Economic and Social Council, in which the Council requested its subsidiary bodies to highlight policy recommendations and decisions resulting from their deliberations for consideration and appropriate action by the Council.

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RECENT DEVELOPMENTS RELATED TO TRANSNATIONAL CORPORATIONS AND INTERNATIONAL ECONOMIC RELATIONS

Report of the Secretary-General

SUMMARY

After tripling between 1984 and 1987, world-wide flows of foreign direct investment grew by only 4 per cent in 1988 owing to the decline of outflows from the United States of America and the United Kingdom of Great Britain and Northern Ireland. Despite an increase in the level of inflows of foreign direct investment to developing countries to $25 billion in 1988, the share of these countries in total inflows continued to decline from 27 per cent in the period 1981-1983 to 20 per cent in the period 1984-1988. In 1988, South and South-East Asia outpaced Latin America as the major host region for foreign-direct-investment flows to developing countries. Latin America was the only area to which inflows in 1988 declined in absolute amounts.

A new development during the past two years has been the emergence of Eastern Europe and the Union of Soviet Socialist Republics as potentially important host areas for foreign direct investment. These countries are very likely to become a factor in global resource flows.

Despite the growing popular perceptions in the United States that parts of its economy are coming under the control of foreign investors, the relative importance of foreign direct investment in the United States is still much smaller than in

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many other developed and developing countries. The public discussion of this issue may influence the role of the United States as a champion for an open international framework for foreign direct investment.

The 1992 integration programme of the European Community represents significant new investment opportunities for transnational corporations. Corporations from both developed and developing countries are investing increasingly in the Community to take advantage of the dynamic growth expected to result from the 1992 programme. In contrast to regional integration of developed countries, the regional co-operation and integration schemes of developing countries did not contribute to increased foreign-direct-investment inflows.

CONTENTS

	Paragraphs	Page
INTRODUCTION	1 - 4	5
I. RECENT DEVELOPMENTS	5 - 31	6
A. Overall trends	5 - 12	6
B. The non-American challenge?	13 - 31	12
1. A changing legislative environment?	15 - 18	12
2. The relative importance of foreign direct investment in the United States	19 - 20	13
3. The United States-Japan investment relationship	21 - 26	15
4. Policy implications	27 - 31	18
II. ECONOMIC INTEGRATION AMONG DEVELOPED COUNTRIES	32 - 57	20
A. Introduction	32 - 36	20
B. The 1992 internal market programme of the European Community	37 - 57	21
1. Past experience - impact of the European Community on foreign direct investment	37 - 39	21
2. The effects of the 1992 programme	40 - 44	22
3. Implications for developing countries	45 - 57	23
III. INTEGRATION AMONG DEVELOPING COUNTRIES	58 - 74	26
A. Institutional arrangements for integration	58 - 65	26
1. General arrangements	58 - 63	26
2. Foreign-direct-investment provisions	64 - 65	27
B. Impact on foreign direct investment	66 - 71	28
C. Conclusions and policy implications	72 - 74	30

CONTENTS (continued)

Page

Tables

1. Outflows of foreign direct investment from five major home countries, 1983-1988 7

2. Inflows of foreign direct investment into developing countries, 1983-1988 9

3. Indicators of the significance of inward foreign direct investment in selected host countries, various years 14

4. Foreign direct investment between Japan and the United States: flows and stocks 16

5. Foreign-direct-investment inflows into integration groupings of developing countries and regions, annual averages 29

Figures

I. Outflows of foreign direct investment, by major region, 1980-1988 8

II. Inflows of foreign direct investment into developing countries, 1980-1988 10

INTRODUCTION

1. The Economic and Social Council, in its resolution 1989/22, requested the Secretary-General to submit to the Commission on Transnational Corporations at its sixteenth session a report on recent developments related to transnational corporations and international economic relations, including an assessment of the potential impact of regional economic integration processes among developed countries on the activities of transnational corporations, particularly in developing countries and an assessment of the impact on regional economic integration processes in developing countries. Given the wide scope of these issues, the Secretary-General has prepared in response to these requests not only the present report, but also a technical study entitled Economic Integration and Transnational Corporations in the 1990s: Europe, North America and Developing Countries (forthcoming). The present report contains, as far as its economic integration discussion is concerned, a shortened version of that study. It focuses on three developments of particular importance during the past two years: the continuing albeit slower growth of foreign-direct-investment flows and the emergence of Eastern Europe and the Union of Soviet Socialist Republics as prospective host areas; the public discussion in the United States about the growing role of foreign direct investment in that country; and the actual and potential effects of economic integration efforts on foreign direct investment and transnational corporations activities, particularly in developing countries.

2. During 1988, foreign-direct-investment flows reached some $150 billion, some four fifths concentrated on developed market economies. The trend towards a declining share of the developing countries continued. Although data are not yet available for 1989, it is likely that investment flows to developing countries decreased further in relative terms because, among other reasons, the events in China during the first half of the year had a negative impact on foreign-direct-investment flows to that country. At the same time, the year 1989 witnessed an intense interest on the part of countries of Eastern Europe and the USSR in attracting foreign direct investment. Many factors may make this region an attractive area for foreign direct investment. One of the trends to watch, therefore, is the extent to which increased foreign-direct-investment flows to Eastern Europe and the USSR will materialize and how this may affect developing countries. These developments are discussed in section A of chapter I of the present report.

3. During the 1980s, the United States of America became the most important host country. In fact, public perceptions are growing that the United States is facing a "non-American challenge", as a result of which large portions of the country's economy are coming under the control of foreign investors. As section B of chapter I of the present report shows, however, the relative importance of foreign direct investment in the United States is quite small - much smaller, in fact, than that in many other developed and developing countries. Nevertheless, a growing foreign presence in the country has led to a policy discussion, which, if current trends continue, may influence the role of the United States as a champion for an open international framework for foreign direct investment.

4. A good part of corporate strategy discussions during the past year dealt with the impending completion of the single European market at the end of 1992 and the implications that a dynamic unified market of over 300 million people would have for international business. Corporations within the European Community are preparing themselves for this event by positioning themselves in other countries of the Community. Firms from outside the Community - especially from the United States and Japan - are re-evaluating their strategies and, in particular, undertaking increased investments in the Community (and/or rearranging their operations in the area) to be in the best possible position to benefit from this market. While the single European market is taking shape, a free trade area in North America, consisting of the United States and Canada, has been established as at 1 January 1989, linking more closely these two large economies. These realignments are likely to have profound implications for investment flows within, to and from the integrating areas. The broader implications of these developments are examined in detail in the forthcoming technical study mentioned above in paragraph 1. Chapters II and III of the present report focus on the implications of regional economic integration in both developed and developing countries for foreign direct investment and the activities of transnational corporations in developing countries only.

I. RECENT DEVELOPMENTS

A. Overall trends

5. After having tripled between 1984 and 1987, world-wide outflows of foreign direct investment grew by only 4 per cent in 1988, reaching an absolute level of $150 billion (see table 1 and figure I). The slow-down in the growth rate resulted mainly from the absolute decline of outflows from the United States of America and the United Kingdom of Great Britain and Northern Ireland by $26 billion and $4 billion respectively. This decline was partially offset by significant increases in outflows of foreign direct investment from other home countries, including Canada, France, Japan and in particular smaller countries of Western Europe (Switzerland, Italy, Sweden and Finland). The latter group of countries increased their outward investment flows in 1988 by $12 billion. The decline in United States outflows in 1988 was due mainly to two factors: net equity capital disinvestment (particularly in such industries as petroleum, finance and insurance in Colombia, the Federal Republic of Germany, the Netherlands Antilles and the United Kingdom) and lower reinvested earnings caused primarily by the appreciation of the United States dollar in 1988 and by relatively higher interest rates in the United States than abroad.

6. Developing countries are becoming a more important source of outward investment. In 1988, outward flows from developing countries more than doubled, increasing by $3.5 billion to a total of $5.8 billion. However, this sudden upsurge has not yet affected their small share of 2 per cent of total outflows, a share that persisted throughout the 1980s. Most of the increase was accounted for by East and South-East Asian countries and, in particular, Taiwan Province of China. The increase of outward foreign direct investment from some newly industrializing and middle-income developing countries may well continue into 1989,

Table 1. Outflows of foreign direct investment from five major home countries, 1983-1988

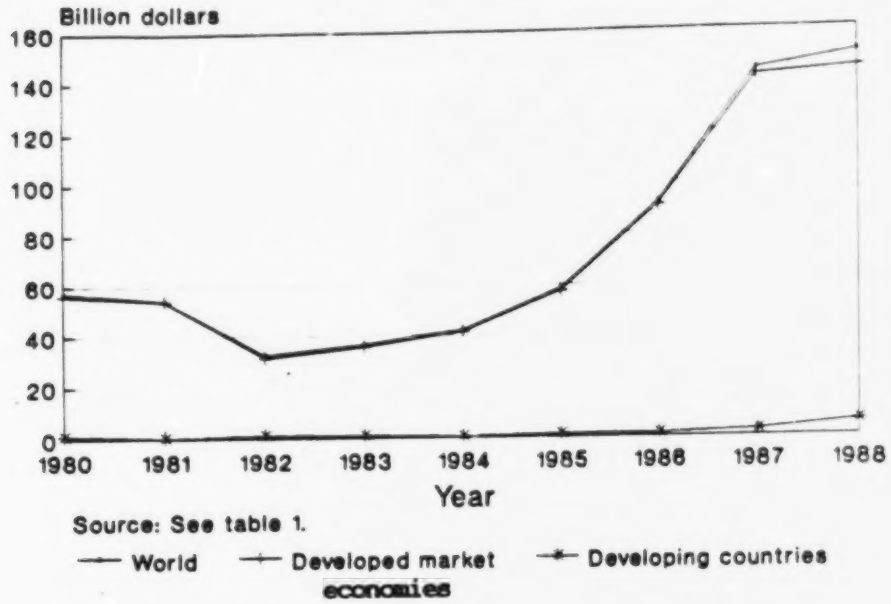
Home country	1983	1984	1985	1986	1987	1988
			A. Absolute values			
			(Millions of dollars)			
France	1 700	2 134	2 267	5 339	9 082	14 485
Germany, Federal Republic of	3 186	4 346	4 914	10 089	9 220	10 362
Japan	3 602	5 945	6 427	14 336	19 396	34 256
United Kingdom	8 181	7 956	11 174	16 232	30 771	26 971
United States	3 574	4 867	13 483	21 444	11 202	14 805
Total	20 243	25 249	38 224	67 440	109 671	100 879
Developed countries	35 770	41 393	57 220	90 719	141 349	144 036
Developing countries	893	572	1 190	1 289	2 312	5 827
All countries	36 665	41 977	58 412	92 031	143 670	149 885

	B. Shares (Percentage)	
	1981-1983	1984-1988
France	7.3	6.1
Germany, Federal Republic of	7.8	8.6
Japan	11.0	15.4
United Kingdom	22.2	19.0
United States	17.5	19.3
Total	65.8	68.4
Developed countries	97.9	97.9
Developing countries	2.1	2.1

Source: International Monetary Fund, balance of payments tape, retrieved on 10 November 1989.

Note: The data on Japan exclude reinvested earnings.

Figure I. Outflows of foreign direct investment, by major region, 1980-1988



as there have been reports of large actual or planned acquisitions of companies in developed countries by firms from developing countries, particularly from Mexico, Nigeria, Saudi Arabia, Taiwan Province of China and Venezuela.

7. Increased inflows of foreign direct investment have been experienced by both developed and developing countries. However, since the mid-1970s, the share of inward flows directed to developed countries increased from an average share of 73 per cent in 1981-1983 to 80 per cent in 1984-1988. The share of five major investor countries (France, Federal Republic of Germany, Japan, United Kingdom and United States), in particular, increased from 53 per cent in 1981-1983 to 57 per cent in 1984-1988. Such growth is accounted for mainly by the strong growth of inward investment in the United States in 1988, which further enhanced the position of that country as the world's largest host country.

8. Since 1983, the absolute level of inflows of foreign direct investment to developing countries has also been increasing, to a level of $25 billion in 1988, a 7 per cent growth over 1987 (see table 2 and figure II). In 1988, flows increased to all regions of developing countries except Latin America. South and South-East Asia outstripped Latin America as the largest host region among developing countries. Also worth noting is the increase of inflows to Africa for the second consecutive year. In relative terms, however, the share of developing countries in total inflows of foreign direct investment declined from an average share of

Table 2. Inflows of foreign direct investment into developing countries, 1983-1988

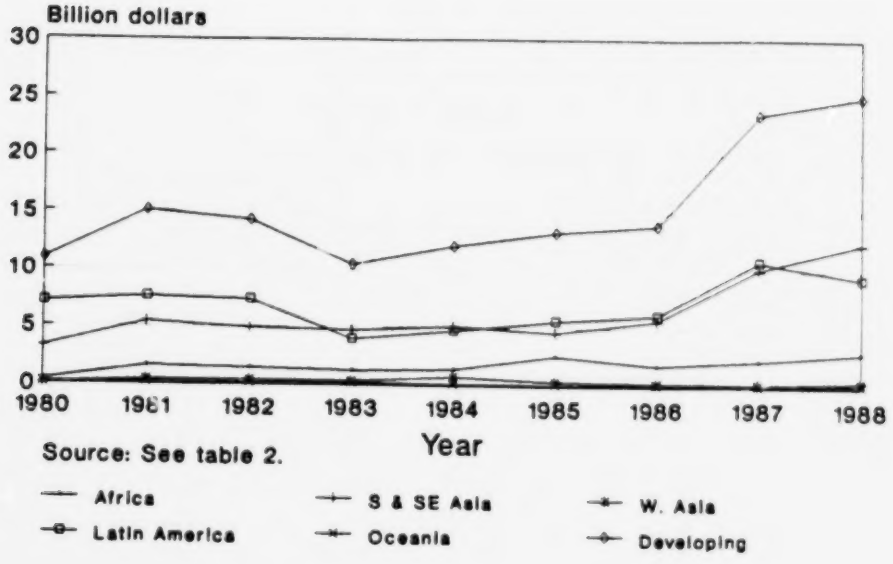
Host country	1983	1984	1985	1986	1987	1988
			A. Absolute values			
			(Millions of dollars)			
Developing countries	10 392	12 041	13 294	13 876	23 553	25 097
Africa	1 210	1 374	2 571	1 752	2 230	2 853
South and South-East Asia	4 679	5 096	4 583	5 658	10 147	12 315
West Asia	329	728	402	286	249	407
Latin America	3 954	4 678	5 582	6 067	10 798	9 304
Oceania	177	147	122	118	103	176

B. Shares
(Percentage)

	1981-1983	1984-1988
Developing countries	27.2	20.1
Africa	2.9	2.5
South and South-East Asia	10.3	8.6
West Asia	0.7	0.5
Latin America	13.0	8.3
Oceania	0.3	0.2

Source: International Monetary Fund, balance of payments tape, retrieved on 3 January 1990; Organisation for Economic Co-operation and Development and various national sources.

Figure II. Inflows of foreign direct investment into developing countries, 1980-1988



27 per cent in 1981-1983 to 20 per cent in 1984-1988. This is due largely to the increasing importance of technologically intensive direct investments during the 1980s, which favour locations in other developed countries and the less favourable investment climate in developing countries owing to their heavy debt burden and/or political and economic instability.

9. The share of the developing countries in total flows is likely to fall further in 1989, since inflows to China decreased during that year. Since the inception of its foreign investment policy in 1979, China has become a major host to foreign investment in both absolute and relative terms. Foreign investment inflows into China reached $3.2 billion in 1988, representing a share of 12 per cent of all inflows to developing countries in 1984-1988, compared to 4 per cent in 1981-1983. In 1989, however, the influx of new foreign direct investment slowed markedly as a result of the perception of a less favourable investment climate. In addition, the flow of new financial resources to China from international banks and multilateral agencies declined sharply during the third quarter of 1989.

10. Perhaps the most important new development during the past two years has been the emergence of Eastern Europe and the USSR as more important host areas for foreign direct investment than in the past. Virtually all countries of that area have now introduced and/or improved laws and regulations aimed at attracting foreign direct investment, typically in the form of joint ventures. In addition, a number of these countries (Bulgaria, Hungary, Poland) have established or (USSR) are

considering establishing free economic zones, which may significantly broaden investment opportunities for transnational corporations. All of these countries place special emphasis on the role of transnational corporations in contributing capital, technology and management expertise, as well as providing access to markets, as part of the domestic restructuring process and as a mechanism for further integration into the world market and the international division of labour. Accordingly, various incentives and guarantees are offered (including bilateral investment protection treaties) and promotional activities are undertaken to obtain the desired influx of foreign direct investment as rapidly as possible.

11. How successful these efforts will be remains to be seen. Success may well depend on how fast workable market mechanisms will be introduced in these countries and, above all, how fast convertibility of their currencies can be enhanced (or other mechanisms can be found to, inter alia, permit the transfer of profits). A number of conditions are, however, quite favourable: the countries of Eastern Europe and the USSR in particular represent a large, relatively untapped market; skills are abundant and wages are relatively low; an industrial infrastructure and technical culture exists; and the close proximity to the Western European market is unrivalled. The last of these facts - of course in combination with the others - is likely to become particularly important in the light of the intensified competition likely to result from the completion of the single European market at the end of 1992. Firms that are subject to increased competition in the European Community will search for high-skilled, low-cost sites of production. They may be especially interested in investing in Eastern Europe and the USSR (or expanding sub-contracting and other non-equity relationships with enterprises in that area) to preserve or enhance their competitive position, provided, however, that access of exports from Eastern Europe and the USSR to the Western European market is assured.

12. All indications are that Eastern Europe and the USSR will, indeed, become more attractive host areas. For example, the number of joint venture agreements signed with Soviet firms increased from 300 at the beginning of 1989 to 1,200 at the end of that year. Approximately $4 billion had been committed to joint ventures in the USSR as at August 1989, but only a few of the projects have actually started operations. The number of joint ventures in Hungary doubled in 1989, to more than 600 as at October 1989, although many are small. In the case of Poland, 866 joint ventures were approved by the end of 1989, compared to a total of 16 in 1987. Although the constitution of the German Democratic Republic was changed only in January 1990 to permit foreign direct investment, negotiations on a number of joint ventures with firms in that country had already begun. The massive capital assistance that countries of Eastern Europe are in the process of obtaining from member countries of the Organisation for Economic Co-operation and Development (OECD) is most likely to be an additional stimulus to foreign direct investment. Although these developments are not yet reflected in any foreign-direct-investment statistics, they are very likely to become an increasingly important factor in global resource flows. In particular, investments may be attracted that are meant to serve the domestic markets of Eastern Europe and, all the more so, the USSR market; but a sizeable share of these investments is also likely to be export-oriented, both in the natural resource and manufacturing sectors. It may be useful to examine to what extent countries of Eastern Europe and the USSR will

indeed attract transnational corporations and what implications this may have for foreign-direct-investment flows to other parts of the world.

B. The non-American challenge?

13. Some 25 years ago, Western Europe feared the "American challenge". United States firms were seen to be in the process of taking over the region's industry by exploiting their managerial and technological superiority over Western European companies. It was widely predicted that "15 years from now the world's third greatest industrial power, just after the United States and Russia, may not be Europe, but American industry in Europe". 1/ Large parts of European industry were, in fact, owned by United States firms, but this prediction did not prove accurate. In some industries, United States companies maintained or even strengthened their positions. In many others their presence forced local firms to face the challenge and to increase their competitiveness. On balance, it appears that the influx of United States foreign direct investment contributed to the economic development of Western Europe rather than curtailed it.

14. Today, public discussions in the United States often create the impression that the United States is on the verge of becoming the victim of a "non-American challenge". The present section examines the extent to which these fears are in fact warranted. And since Japanese investments figure prominently in these discussions, special attention is given to the United States-Japan investment relationship.

1. A changing legislative environment?

15. In addition to maintaining its position as a major home country, the United States has also become the world's largest host country for foreign direct investment. This trend continued in the second half of the 1980s. The rate of growth of inflows into the United States accelerated from 18 per cent in 1981-1983 to 29 per cent in 1984-1988, leading to a further increase of the United States share in world-wide investment inflows from 34 per cent to 42 per cent respectively. The large influx of foreign companies has received increasing attention in the United States. In particular, the acquisition of large and visible United States assets has caught public attention and has induced a political debate about foreign direct investment in the United States. Foreign take-overs have resulted in several legislative proposals seen to impose restrictions on foreign direct investment in key industries. The first proposal, the Bryant Amendment to the 1988 Omnibus Trade Bill reintroduced as House Resolution 5410, was defeated during the Congressional debate on the grounds that it contained provisions that might discourage foreign investment and violate the national treatment clause of various United States international treaties and agreements. These provisions would have required foreign companies that have a significant or controlling interest in a United States business enterprise to register with the Department of Commerce and to disclose confidential and proprietary information.

16. Another legislative proposal, the Exon-Florio provisions, was included in the Omnibus Trade and Competitiveness Act of 1988 as Section 5021. It extends the powers of the President of the United States to review certain mergers, acquisitions and take-overs by foreign interests with respect to their effect on national security. The provisions have been used to scrutinize the national security implications of foreign take-overs of United States companies rather than discourage or block them. Out of the 100 voluntary notifications of planned investments by foreign companies to the United States Committee on Foreign Investment in 1988-1989, only one case was perceived as involving a national security risk: the proposed take-over of General Ceramics, a company with a unit producing components for nuclear warheads, by Tokuyama Soda of Japan. The take-over was subsequently approved after changes that excluded the purchase of the sensitive unit.

17. There are other legislative proposals pending in the Congress of the United States relating to foreign investment. One proposal, HR 3699, seeks to amend the Trade Act of 1974 by calling for reciprocal treatment to foreign acts, policies and practices that deny national treatment to United States investments. Another proposed bill, known as the Cable Television Ownership Act of 1989 or HR 3265, seeks to amend the Communications Act of 1934 by calling for prohibition of foreign ownership in cable television systems.

18. Despite these legislative initiatives, the United States remains one of the most open countries to foreign direct investment. Nevertheless, the debate has not subsided and proposals for closer monitoring of foreign direct investment continue to be discussed.

2. The relative importance of foreign direct investment in the United States

19. A comparison of the overall role of foreign direct investment in the United States with that in other major host countries shows that foreign firms play a much less significant role in the United States economy than in many other major developed and developing host countries (see table 3). For example, while foreign firms accounted for only 7 per cent of total employment in the United States manufacturing sector in 1987, the foreign share of manufacturing employment in Australia, Belgium, Brazil and Canada was between 22 per cent and 45 per cent as early as the late 1970s and early 1980s. Other major host countries in which foreign firms play a considerably more important role than in the United States are France, Malaysia, Mexico, the Netherlands and the United Kingdom. A similar pattern emerges when other measures - such as the share of sales or assets accounted for by foreign affiliates - are used for comparison.

Table 3. Indicators of the significance of inward foreign direct investment in selected host countries, various years

(Percentage)

	Primary	Secondary	Tertiary	Total
		1. Employment		
Australia (1982-1983)	24.8 a/	21.6	..	..
Belgium (1975)	..	33.0	..	..
Brazil (1977)	..	23.0	..	..
Canada (1976)	..	44.7	..	41.2
France (1982)	..	20.2	..	..
Italy (1981)	..	8.3	..	6.5
Japan (1987)	..	0.8	0.1	0.4
Malaysia (1975)	..	19.7		5.9
Mexico (1986)	4.1	19.7	8.1	12.1
Netherlands (1980)	..	19.2	..	7.5
United Kingdom (1981)	..	14.8	..	..
United States (1987)	3.1	7.3	2.6	3.6
		2. Sales		
Belgium (1975)	..	44.0	..	..
Brazil (1977)	..	32.0	..	..
Canada (1980)	49.7	50.6	18.3	..
France (1982)	..	25.3	..	..
Germany, Federal Republic of (1985)	..	22.4	14.9 b/	18.0
Italy (1982)	..	..	..	19.5
Japan (1987)	..	2.2	0.4	1.0
Malaysia (1975)	8.5	39.8	28.7	..
Mexico (1980)	..	27.1	..	..
United Kingdom (1981)	..	19.3	..	..
United States (1987)	..	11.5	..	..
		3. Assets		
Italy (1982)	2.8	9.0	..	..
Japan (1987)	..	1.9	0.3	0.8
Mexico (1986)	47.6	75.8	33.9	58.4
South Africa (1972)	..	..	..	42.0
United States (1987)	..	13.2	..	..

Source: United Nations Centre on Transnational Corporations data base, compiled from various national sources.

a/ Represents mining only.

b/ Represents commerce and distributive trade only.

20. Furthermore, the importance of United States direct investment alone in other major partner countries is usually far greater in terms of its ratio to the host country's gross domestic product than the importance of these countries investments' in the United States economy. For instance, the ratios of the direct investment holdings of the United Kingdom, the Netherlands and Canada in the United States to that country's gross domestic product are 1.7 per cent, 1.0 per cent and 0.5 per cent, respectively. By comparison, the ratios of direct investment holdings of United States companies to the gross domestic product in these countries are 6.6 per cent, 6.6 per cent and 13.7 per cent, respectively.

3. The United States-Japan investment relationship

21. Recent discussions in the United States have focused in particular on the inflow of Japanese investment. The focus on Japan stems from the very rapid growth of Japanese foreign direct investment; from its concentration in some areas, industries and companies considered sensitive or vital to United States interests; and from the perceived imbalance in foreign-direct-investment activities between the United States and Japan.

22. United States companies have, indeed, become a major target of Japanese corporate purchases, accounting for nearly 60 per cent of total Japanese overseas mergers and acquisition activities in 1988. The number of United States firms purchased by Japanese companies increased sharply from 33 in 1984 to 115 during the first eight months of 1988. In terms of actual value, the amount of investment outlays by Japanese investors to acquire or establish United States firms rose from $1.8 billion in 1984 to $14.2 billion in 1988. The stock of Japanese foreign direct investment in the United States grew by 40 per cent annually during the period 1986-1988 (see table 4). As a result, Japan has become the second largest home country for foreign direct investment in the United States over a relatively short period of time, accounting for more than 16 per cent of the total stock in 1988 compared to 1 per cent in 1974 and 6 per cent in 1980.

23. In some industries, Japanese companies have quickly become major or even dominant market participants. For example, the output of Japanese automobile producers in the United States, which began establishing facilities in the United States in response to protectionist measures by that country, accounts now for 15 per cent of the total United States car market. Japanese companies have exerted an even greater influence in the consumer electronics market. Domestic production of video recorders in the United States is largely under Japanese control, while only one major United States company, Zenith, continues to remain competitive in the manufacture of colour television sets. Recently, Japanese chemical process industries have increasingly been using the acquisition route as a means of broadening their market share and technology base in foreign countries with a focus on the United States market.

Table 4. Foreign direct investment between Japan and the United States: flows and stocks a/

(Millions of dollars and percentage)

Year	Reported by Japan b/		Reported by the United States	
	FDI by Japan in the United States	FDI by the United States in Japan c/	FDI by Japan in the United States	FDI by the United States in Japan
		Flows		
1980	1 484 (31.6)	104 (34.7)	948 (5.6)	19 (0.1)
1981	2 354 (26.4)	149 (34.5)	2 970 (11.8)	488 (3.8)
1982	2 738 (35.5)	249 (33.2)	1 977 (14.3)	243 (3.9)
1983	2 565 (31.5)	432 (53.1)	1 653 (13.8)	1 257 (337.0)
1984	3 360 (33.1)	214 (43.4)	4 374 (17.2)	-361 (-12.8)
1985	5 395 (44.2)	413 (44.4)	3 394 (17.8)	1 160 (6.4)
1986	10 165 (45.5)	488 (51.9)	7 268 (21.3)	1 987 (7.6)
1987	14 704 (44.1)	938 (42.4)	7 504 (16.0)	2 908 (6.6)
1988	21 701 (46.2)	1 774 (54.7)	17 838 (30.5)	1 976 (11.3)
		Stocks		
1975	3 418 (21.4)	900 (60.0)	591 (2.1)	3 339 (2.7)
1980	8 878 (24.3)	1 611 (54.1)	4 723 (5.7)	6 225 (2.1)
1981	11 207 (24.7)	1 761 (51.6)	7 697 (7.1)	6 755 (2.9)
1982	13 970 (26.3)	2 009 (48.3)	9 677 (7.8)	6 407 (2.8)
1983	16 535 (27.0)	2 441 (49.1)	11 336 (8.3)	7 661 (3.3)
1984	19 894 (27.9)	2 655 (48.6)	16 044 (9.7)	7 936 (3.4)
1985	25 290 (30.2)	3 068 (48.0)	19 313 (10.5)	9 235 (4.0)
1986	35 455 (33.5)	3 407 (48.6)	26 824 (12.2)	11 472 (4.4)
1987	50 159 (36.0)	4 010 (47.4)	35 151 (12.9)	14 671 (4.8)
1988	71 860 (38.6)	6 288 (49.0)	53 354 (16.2)	16 868 (5.2)

Sources: United States, Department of Commerce, Survey of Current Business, various issues, and Ministry of Finance of Japan.

a/ The figures in parentheses represent share in total flows and stock in each country.

b/ Data are based on approval/notification basis, thus they are presumably larger than actual figures. Reinvested earnings are excluded.

c/ Before 1985, loan investment is not included; thus, figures indicate only acquisition of stocks. In stock data, figures are only for acquisition of stocks.

24. Attempted or actual take-overs of large companies considered important to United States security interests, such as the proposed take-over of Fairchild Semiconductor Corporation (already foreign-owned) by the Fujitsu Company and of General Ceramics by Tokuyama Soda, and the purchases of companies in the entertainment industry have added to the public concern about Japanese foreign direct investment. Examples are the purchases of Columbia Pictures Entertainment and CBS Records by the Sony Corporation. In addition, Japanese investors have acquired a significant amount of real estate in various parts of the United States, especially in California and New York. An example is the purchase of 51 per cent of the equity in the Rockefeller Group by Mitsubishi Estate in October 1989 for $846 million. In the finance field, Japanese firms appear to control a quarter of all bank assets in California.

25. The discussions are also fueled by a perceived imbalance in the United States-Japan investment relationship. The stock of United States direct investment in Japan stood, in 1988, at $16.9 billion, compared to a stock of Japanese direct investment in the United States of $53.4 billion (see table 4), as reported by the United States; the imbalance as reported by Japan is even greater. The low level of foreign direct investment in Japan in general, and of United States investment in particular, largely reflects difficulties of investing in Japan, which kept transnational corporate activities in that country at a low level. An imbalance in absolute size of the stock of foreign direct investment in favour of one partner is not a unique feature of United States-Japanese relations, however. An almost equal imbalance in favour of the United States exists in the United States-Netherlands relationship, and it is only slightly lower in the case of the United States-United Kingdom investment relationship. As already mentioned, it is not Japan but the United Kingdom that is the largest foreign direct investor in the United States, with a stock twice that of Japan. In absolute terms, in fact, the foreign-direct-investment stock from the United Kingdom increased more between 1985 and 1988 than that of Japan ($58 billion compared to $34 billion, respectively). Finally, given the different sizes of the United States and the Japanese economies, the absolute imbalance in foreign-direct-investment stock translates itself into a small and almost equal relative share: in 1987, the ratio of the Japanese stock of foreign direct investment to United States gross domestic product was 0.8 per cent, exceeding the ratio of the United States foreign direct investment to Japanese gross domestic product by only 0.2 percentage points.

26. The future may see a changing structure of Japanese foreign direct investment in the United States. At present, about two thirds of the stock of Japanese investment in the United States is in services, with investments in trade and finance (designed, inter alia, to promote and support exports from Japan) representing the most important service industries. This reflects the pattern of Japanese international transactions with the United States, in which trade, and not foreign direct investment, is the prevailing mode of selling manufacturing goods in the United States. The share of exports in the total sales of Japanese goods in the United States is 88 per cent, with the remaining 12 per cent accounted for by sales of Japanese affiliates in the United States. (By comparison, the reverse is true for United States manufacturing sales in Japan: 82 per cent are sales of United States affiliates in Japan and only 18 per cent are United States exports.) Foreign direct investment in manufacturing may become a more important mode of

delivering Japanese goods to the United States. Japanese direct investment in the manufacturing sector of the United States has already become more important in recent years and has concentrated in technologically intensive electrical, electronic and mechanical engineering industries where trade protectionist pressures are particularly high. The latest survey conducted by Toyo Keizai among Japanese firms indicates that their outward direct investment in the manufacturing sector will become more prominent in the future. The reasons include the increasing globalization strategy of Japanese manufacturing firms and the possibility of further protectionist pressures in the United States in manufacturing industries in which Japan has a strong trade interest.

4. Policy implications

27. As the data show, the relative importance of foreign direct investment in the United States is small, both overall and in virtually all industries - much smaller, in fact, than the importance of foreign direct investment in many other developed and developing countries. Even in relation to Japan, the relative magnitudes of Japanese investment in the United States and those of the United States in Japan are not that different.

28. Popular reactions regarding foreign direct investment in the United States include not only emotional reactions to the growing presence and influence of foreigners over various aspects of the American way of life - which, incidentally, were characteristic for almost all host countries at one time or another, including the United States at the beginning of the present century - but also concern perceived negative economic impacts of foreign firms on the quality of jobs, research and development activities, balance of trade, etc. However, a recent study concluded that these perceptions are not justified. 2/ Foreign firms in the United States do not deprive their United States affiliates from technology and high-quality jobs: conversely, the research and development effort per worker of these affiliates is higher than United States domestic companies, as is value-added and compensation per worker. The behaviour of the United States affiliates of Japanese companies especially in manufacturing is no different from that of other foreign affiliates. The only major exception is the higher import propensity of Japanese affiliates if compared with other foreign affiliates, by a factor of 2.5 to 1.0. The authors of the study do not, however, consider this a cost to the United States trade imbalance, arguing that, in the absence of Japanese foreign direct investment, the domestic market would have been served by imports of the final products and the trade imbalance would have been even higher. In addition, they predict that when Japanese manufacturing affiliates mature in the market, they will increase their level of local content. This point is supported by the studies of the behaviour of transnational corporations in general and the example of Japanese investment in the United States car industry in particular. 3/ Finally, the export propensity of Japanese affiliates is higher (although much less than their import propensity) than that of other foreign affiliates and the latter exhibit higher export propensity per worker than that of the United States companies.

29. The focus on Japan in the current United States debate can only be understood in the broader context of United States-Japan economic relations, which are

characterized, among other things, by intensified competition in world markets, especially for high-technology products; a persistent trade imbalance between the two countries in favour of Japan; different managerial methods in United States and Japanese transnational corporations; and different perceptions of the causes of imbalances and problems in the economic relations between the two countries. While these issues require attention, they are broader than the investment relationship between the United States and Japan. Given the importance of these two countries in the world economy, however, it would be desirable to ensure that their investment relationship is managed in a manner that does not lose sight of the small relative importance of foreign direct investment in both economies and the negative demonstration effect a deterioration of that relationship can have for other countries.

30. Above all, the discussions should give full consideration to the benefits associated with foreign direct investment. As noted before, Europe in the 1960s was not weakened by the "American challenge"; on the contrary, foreign capital, technology, skills, management techniques and entrepreneurship ultimately strengthened European industry and contributed to increasing standards of living in that area. Likewise, it can be argued that the United States in the 1990s will not be weakened by a "non-American challenge"; on the contrary, an open approach to the best in capital, technology, skills, management techniques and entrepreneurship from anywhere in the world, and particularly from firms that have acquired leadership roles based on superior performance, could strengthen the country's competitiveness in the international economy.

31. Indeed, despite some unfavourable popular reactions in the United States to foreign direct investment (and in particular to Japanese investment), the rise of such investment in the United States can be seen as a part of the long-term process of the internationalization of the world economy, a process largely brought about, inter alia, by United States corporations investing in other parts of the world. The United States (and Japan) as a host country lagged behind other countries in that process. Now, with the United States advantage over its competitors in skills and technologies in a number of industries narrowing or even disappearing, many foreign firms acquire firm-specific advantages over United States companies. These advantages enable foreign firms to compete successfully with their United States counterparts in their own market. The United States economy as a whole stands to gain in this process as foreign investors bring new technologies and production methods, thus increasing competitive pressures on United States companies. Traditional gains from investment, including foreign direct investment, such as job creation should also not be neglected, especially in the case of greenfield investment. The realization of these benefits has prompted most states of the United States to open offices in foreign cities (including Tokyo) to attract foreign investors.

II. ECONOMIC INTEGRATION AMONG DEVELOPED COUNTRIES

A. Introduction

32. The theory of economic integration predicts that foreign direct investment both to and within a region will increase after two or more countries of the region integrate their economies by eliminating internal barriers to trade while leaving external trade barriers in place. Foreign-direct-investment inflows to the integrated region may rise for a number of reasons. In some cases, firms "jump the tariff" to produce inside the region instead of exporting to it, once there is free trade within the integrated area but tariffs remain against third-country goods ("defensive export substituting investment"). In another case, transnational corporations may increase foreign direct investment in the integrated area if the creation of a larger market enables greater economies of scale ("rationalized investment"). They may also step up their direct investment in the region to position themselves in markets that are newly opened or exhibit rapid growth as a result of the integration programme ("offensive export substituting investment"). The first case refers primarily to the strategies of firms from third countries (i.e. from outside the region), and represents a short-term, static (one-time) effect; the second and third cases refer to strategies of all firms, regional and extraregional, and the effects in these cases are dynamic (ongoing) and likely to occur over the medium to long term. In all three cases, the integration effort triggers adjustments in the activities by transnational corporations that raise the aggregate level of foreign direct investment in the region. Regional economic integration is thus said to produce an "investment creation effect".

33. The elimination of internal trade barriers is also likely to cause an "investment diversion effect", or a realignment of investment capital among members of the trading area once protective barriers have been removed. If this occurs, foreign-direct-investment activity between countries in the region is likely to increase following integration, although the aggregate level of investment stock may remain the same: increased inflows of foreign direct investment to some countries may be offset by declines in others, as firms realign their organizational structures and value-adding activities to reflect a regional rather than a national market ("reorganization investment"). This may in turn attract still more inflows of foreign direct investment from third countries, if the associated rationalization of the region's industries and services allows for economies of scale, lower costs of production and/or higher returns to capital.

34. The impact of regional integration on foreign direct investment from the integrated area to third countries is more ambiguous. Outflows of foreign direct investment may decline if goods and services from the region become more competitive because of integration, so that exporting rather than foreign direct investment becomes the preferred mode of penetrating overseas markets. Foreign direct investment is likely to rise, however, if the integration process leads to the increased transnationalization of the region's industries and services, so that firms will be more inclined to make overseas investments both for sourcing as well as marketing reasons.

35. Numerous variables will determine the extent to which integration produces these effects on foreign direct investment; among the most important are the level of economic development of the region, and whether significant non-tariff trade barriers remain within the region after tariff barriers have been eliminated. Everything else being equal, integrated groupings among developed countries are more likely to result in increased foreign direct investment than those among developing countries, since the former are generally better equipped with the technological and physical infrastructure, investment capital and consumer and industrial demand conditions that are all necessary to develop an integrated, dynamic regional economy. The economies of developing countries are typically more competitive than complementary; their major markets are in the developed countries and integration thus has limited potential to expand market size. Furthermore, if firms in developing countries are unable to specialize and achieve economies of scale (because of a poor regional infrastructure, for example, or a lack of investment capital) then the effects of regional economic integration on foreign direct investment are likely to be slight; also, developing countries may not attract new investment by transnational corporations after they integrate if the regional market is not sufficiently large or dynamic.

36. If after integration significant non-tariff barriers remain among members, then it is less likely that a truly regional economy will emerge - whether among developed or developing countries - thus lessening the extent to which foreign investment in the region will rise in response to the removal of internal tariff barriers.

B. The 1992 internal market programme of the European Community

1. Past experience - impact of the European Community on foreign direct investment

(a) Institutional arrangements

37. Early integration efforts in the European Community eliminated tariffs and quotas within the Community and introduced a common external tariff to create a customs union. The Treaty of Rome, which set out the objectives of the integration programme, was signed in 1957, and the creation of a common market was largely achieved by 1968, two years ahead of schedule. The European Free Trade Association (EFTA) was formed as a free trade area in the 1960s; in the 1970s, free trade in industrial products was established between both groupings. Regarding developing countries, the European Community granted preferences to a select group of countries that had previously benefited from trade advantages as colonies of the Community's members. These preferential arrangements subsequently evolved into the current Lomé Convention, which covers 66 African, Caribbean and Pacific countries, and Mediterranean country trade preference schemes. Since 1971, the Community also participates in the Generalized System of Preferences, which, while less generous than the former two programmes, allows developing countries in Asia and Latin America to benefit from some trade concessions from the Community.

(b) Impact of integration on foreign direct investment

38. The data on early Western European integration (from 1957 up to the early 1980s) support the hypothesis that integration among developed countries increases the level of foreign direct investment in the region by third countries; in the years following the formation of the European Community and EFTA, United States transnational corporations were the main actors in this process. Furthermore, it appears that this concentration of investment capital in Europe was at the expense of the share going to developing countries. The share of United States foreign-direct-investment stock in Western Europe increased from 15 per cent of total stock in 1950 to 44 per cent in 1980, while the developing country share declined from 50 per cent to 25 per cent over the same period. Flow data paint a similar picture: in the period from 1950 to 1955, Western Europe accounted for 15 per cent of cumulated outflows of United States foreign direct investment; in the period 1961-1967, this share rose to 39 per cent, as a result of an increase of United States investment in Europe of 225 per cent, against an only 120 per cent increase in all countries and a 67 per cent increase in developing countries.

39. Further evidence that Western European integration had a pull effect on inwards foreign direct investment is provided by the experiences of Spain and Portugal, which joined the European Community in 1986: average annual inflows of foreign direct investment to Spain and Portugal grew by 264 per cent and 160 per cent respectively between the periods 1983-1985 and 1986-1988, against 19 and 45 per cent respective increases between the periods 1980-1982 and 1983-1985. While joining the Community was a key variable in triggering these remarkable increases, low labour costs, favourable economic policies and buoyant economic conditions in Spain and Portugal were additional underlying reasons for increased investor interest in those countries. At the same time as they joined, United States foreign direct investment in Spain and Portugal increased sharply, while the level in North African countries dropped precipitously.

2. The effects of the 1992 programme

(a) Institutional arrangements for 1992 and their expected effects

40. Although tariffs and quotas within the European Community have been eliminated, the regional economy has remained substantially fragmented owing to the persistence of high non-tariff barriers: the European Commission has estimated that non-tariff barriers currently impose costs on the Community's industries of between $136 and $207 billion, roughly 5 per cent of the European Community's total GDP.

41. The 1992 programme is an attempt to achieve the ultimate goal of the Treaty of Rome: the creation of a single, integrated, internal market free of restrictions on the movement of goods, services, capital and persons. Impetus for the programme, proposed in 1985 and adopted by all members in 1987, was motivated in part by the fact that many firms in the Community, particularly in high-technology industries, had progressively lost ground to their American and Japanese competitors, not only in extraregional markets, but in the Community itself. It was hoped that the cost savings from regional harmonization, coupled with the

opening up of national markets (including markets for corporate assets) to both more intraregional competition as well as co-operation, would improve the competitive position of European companies, particularly in high-growth, technologically advanced industries such as micro-electronics and telecommunications.

42. The prospect of a single market has unleashed an unprecedented wave of business activity in the European Community, as companies restructure to position themselves for 1992. This activity in the corporate sector, as well as rapid decision-making by the Commission and the European Council, have given the programme a momentum and success rate far beyond expectations: by September 1989 over half of the 279 directives needed to implement the 1992 programme had been adopted by the Council.

(b) Flows of foreign direct investment

43. Recent trends that show Europe to be attracting a substantial share of world-wide foreign-direct-investment flows (almost 28 per cent in the period 1981-1987) appear to have continued in 1988 and 1989. This trend is projected to increase into the immediate future, as demonstrated by the capital expenditure plans of United States transnational corporations. A June 1989 survey shows that they plan to invest $23 billion in their European Community affiliates in 1990, an increase of more than 60 per cent from the 1986 expenditure level; in the rest of the world, planned capital expenditures increased by only 46 per cent over the same four-year period.

44. Within the Community, the pace of cross-border mergers and acquisitions has risen markedly in the past few years. In 1984, there were 155 mergers and acquisitions in the European Community involving the Community's top 1,000 firms; by 1988, that number had more than tripled, to reach nearly 500. A striking trend is the growing predominance of cross-border mergers and acquisitions currently being made in the European Community (i.e. deals between firms from different Community countries, or between a Community firm and a third-country firm). In 1988, cross-border deals represented over 40 per cent of the total among the Community's top 1,000 companies, a 10 per cent jump from the previous year, indicating that a large and growing proportion of corporate assets in Europe are being traded across, rather than within, national borders. These trends are likely to result in the increased transnationalization of Western European manufacturing and service industries.

3. Implications for developing countries

(a) Possible impacts

45. The single market programme of the European Community poses three major challenges to developing countries: maintaining Community markets for their exports; maintaining current levels of inward foreign direct investment by transnational corporations; and attracting future inflows of foreign direct investment in the face of rapidly expanding investment opportunities not only in Western Europe, but in Eastern Europe as well.

Maintaining Community markets for exports

46. The Community has yet to finalize a clear external trade policy for the single market, so it is unsure whether goods imported from third countries, including developing countries, will be granted the same, less or greater access to Community markets than they currently enjoy. It is possible that the market access of third country producers (whether of components or finished goods) will worsen relative to Community suppliers, cutting into exports from developing countries. Firms from developing countries may be obliged to invest directly in the Community if they wish to maintain their position in markets previously served through exporting.

47. Local content requirements, rules of origin and the harmonization of technical standards are policy instruments that may (deliberately or otherwise) result in barriers against third-party goods. However, even if such barriers are put in place, exports from developing countries may rise in the long term if the economic effects projected to occur from the 1992 programme changes the structure of European production: if Community firms shift out of industries that compete directly with exports from developing countries, such as clothing, steel and low-technology manufactured goods, into more skill- and technology-intensive industries, then exports from developing countries could rise to meet demand in markets that were previously served by Western European firms. A rapidly growing European market could also increase exports from developing countries.

Maintaining current levels of inward foreign direct investment by transnational corporations

48. Recent decisions by the Community concerning trade in photocopiers and integrated circuits indicate that in the short term it may opt for some external restrictions in certain sensitive areas. In both cases, penalties were imposed on the suppliers (which were from third countries) with the aim of encouraging them to locate the most substantial or technology-intensive aspect of production within the Community.

49. These policy measures, though largely trade-related, could have a direct effect on foreign direct investment in developing countries. Many transnational corporations invest in developing countries or sub-contract from developing country firms in order to export components and final goods to third countries, taking advantage of low production costs for labour-intensive operations. Stringent local content requirements and rules of origin contained in the 1992 programme are likely to encourage transnational corporations wishing to access Western European markets to invest directly in the Community rather than in developing countries for export to the Community and to utilize European sub-contractors, even though the latter may be more costly than those in developing countries.

50. Transnational corporations are currently making moves in anticipation of the 1992 programme, so that foreign direct investment in developing countries is likely to have already been affected by Western European integration. For instance, Intel, one of the world's leading manufacturers of computer chips, with substantial interests in developing countries, has recently invested $400 million in the European Community, a decision motivated directly by the above-mentioned local

content policy on integrated circuits. In another example, the head of Sony in Europe, speaking about his company's plan to invest several hundred million dollars in Europe, has said: "If we followed just the economics of manufacturing, we'd ship the lot from South-East Asia". 4/ At best these new investments represent an opportunity cost to developing countries in terms of investment flows being diverted to Western Europe; at worst, there may be a real decline in existing levels of foreign direct investment stock, if transnational corporations move current capacity from developing countries to the European Community in order to be prepared for 1992.

Maintaining future inflows of foreign direct investment

51. Future flows of foreign direct investment to developing countries are likely to be affected by shifting patterns of economic growth induced by the 1992 programme.

52. Rapid growth of profitable opportunities in Western Europe triggered by the larger market may result in lessened future flows of foreign direct investment to developing countries, as the attractiveness of investment in Western Europe increases in relation to developing countries. Countering this possible decline are two factors that may lead to increased foreign direct investment in developing countries. Firstly, as competition in the Community increases, cost reduction is likely to become a more important strategic objective for transnational corporations operating in the Community. They may thus increase foreign direct investment in developing countries, particularly in those which have special trading relationships with the European Community, such as the Mediterranean and Lomé Convention countries.

53. Secondly, in the long run the unification programme should strengthen the competitive position of transnational corporations from the European Community in global markets. This too may lead to increased foreign direct investment in developing countries as transnational corporations from the European Community increase their world-wide sourcing and marketing activities, provided there is barrier-free access to Community markets.

54. As part of their strategies for the single market, some transnational corporations are now looking actively at investment opportunities in the newly opened economies of Eastern Europe, mostly with the aim of exporting goods and services to Western Europe. Examples include Volkswagen's plan to build a factory in the German Democratic Republic (which enjoys duty-free access to the Federal Republic of Germany) to produce inexpensive cars for export to Western markets; General Electric's investment of $150 million in a factory in Hungary as part of its strategic plan for 1992; and Suzuki's announcement of its intention to invest $140 million to build an automobile plant in Hungary (General Motors has similar intentions). If more Eastern European countries are granted some form of duty-free access to the European Community, then this may cause a diversion of foreign direct investment from some developing countries.

(b) Implications for developing country firms and Governments

55. Given the high degree of uncertainty surrounding the Community's external policy and prospects for rapid growth of the internal market, some firms in developing countries that previously exported to Community markets are investing directly in the Community and some developing country Governments are implementing programmes to facilitate these investments.

56. Brazilian companies, for instance, have responded to the trade and investment implications of 1992 by increasing investment in the Community, so that Brazil is now the fourth largest investor in Portugal. In India, several engineering companies are planning links with European firms and a proposal has been made to the Finance Ministry that would grant foreign exchange to Indian companies that establish European operations. Firms from the Republic of Korea are planning actively for joint ventures and mergers with European companies.

57. Many of these moves are being made in anticipation of future decisions by the European Community. Since the latter has not yet formulated its harmonized external policy - likely to be among the most difficult tasks in the unification programme - it is currently an auspicious time for Governments in developing countries to participate in the debate. By strengthening their own regional integration efforts, developing countries will be in a better position to ensure that they will not be denied fair and equal access to the economic benefits that are sure to be created by the single market programme in 1992.

III. INTEGRATION AMONG DEVELOPING COUNTRIES

A. Institutional arrangements for integration

1. General arrangements

58. Five regional integration and co-operation groupings are dealt with in this chapter: the Andean Common Market; the Association of South-East Asian Nations (ASEAN); the Caribbean Community (CARICOM); the Preferential Trade Area for Eastern and Southern African States (PTA); and economic co-operation among the countries of the Maghreb.

59. The Andean Common Market, established in 1969, is the most comprehensive of these five groupings: it encompasses provisions for a common market (such as a customs union and the free movement of factors of production), as well as for an economic union (such as regional planning of investment and the harmonization of policies related to foreign direct investment and technology transfer). The Andean Development Corporation facilitates the financing of investments aimed at economic co-operation among member countries.

60. ASEAN, launched in 1967, was initially based on a loose co-operative agreement and gradually adopted provisions characteristic of regional economic integration. In 1977, regional trade was selectively liberalized, although the measures taken affected only a small percentage of total intra-ASEAN trade. In 1987, regional

trade was further liberalized through the lowering of tariff and non-tariff barriers and the extension of preferences to a wider range of products. In addition to facilitating intraregional trade, ASEAN has established several facilities to promote industrial co-operation among members: the ASEAN Industrial Projects (AIP), ASEAN Industrial Complementation (AIC) and ASEAN Industrial Joint Ventures (AIJV). AIP was designed to promote large-scale regional industries; AIC focuses on small and medium-sized industry; and the AIJV scheme promotes joint projects between two or more ASEAN member States as well as between ASEAN members and third-country investors.

61. The aim of CARICOM, which came into being in 1973, is to establish a customs union, i.e. to set up a common external tariff on all commodities imported from third countries and to remove trade barriers between the member countries. However, the scope of trade liberalization within the region is limited owing to many exemptions; in 1987, member countries agreed to further liberalization by gradually reducing the list of exempted items.

62. The PTA Treaty of 1984 provides for co-operation in trade, transport and communications, and the industrial, agricultural and monetary sectors. Intraregional trade is to be promoted through the removal of tariff and non-tariff barriers and the harmonization of customs procedures and regulations.

63. Although theirs is the oldest regional grouping (established in 1964), co-operation between Maghreb countries is based on loose arrangements rather than on a binding integration scheme. The main objectives include the promotion and co-ordination of development plans in the region, with emphasis on industrial harmonization, preferential multilateral trade and the adoption of a common approach towards problems of development financing.

2. Foreign-direct-investment provisions

64. Of the five integration groupings, only the Andean Pact adopted a common policy towards foreign direct investment and technology transfer, embodied in the well-publicized Decision 24, which prohibited new foreign direct investment in a number of industries in the region and placed limits on profit repatriation and majority ownership by foreign investors. Technology transfer provisions were intended to ensure that foreign direct investment made an effective contribution to local economies. The objective of the Decision was to maximize the benefits of foreign direct investment in the region and to increase the bargaining power of the Andean Pact countries *vis-à-vis* transnational corporations. Although it was not intended to impede inflows of foreign investment, foreign investors considered the decision restrictive, leading to its replacement in May 1987 with a more liberal rule granting policy autonomy to member countries, albeit within a set of common guidelines.

65. None of the other four schemes has a harmonized foreign-direct-investment policy; member States establish their own policies and investment incentives, which typically include tax holidays, free trade zones and special guarantees for foreign investors.

B. Impact on foreign direct investment

66. The economic effects of the five integration schemes under study were typically short-lived and limited in scope, and did not have a significant influence on flows of foreign direct investment. While some countries belonging to these groupings, particularly to ASEAN, have experienced substantial inflows of foreign direct investment from third countries, it would be difficult to link those inflows solely to integration, since other factors, such as rising world demand for their exports, were likely to have been more important.

67. Regarding trade, integration has not led to a significant, lasting expansion in intraregional trade, whether measured in absolute or relative terms, in any of the five groupings. Among Andean Common Market countries, for instance, integration boosted the level of intraregional trade from $61 million in 1969 to $1 billion in 1979, but intraregional trade as a percentage of total trade remained at only three to five per cent, and during the 1980s the level of intraregional trade declined. The ASEAN and CARICOM experiences reveal a similar pattern, whereas intraregional trade in the PTA and Maghreb regions remained negligible in both absolute and relative terms.

68. Given that regional co-operation and integration did not lead to the creation of large unified markets in the five groupings of developing countries analysed in the present report, foreign investors continued to view them as collections of small, unrelated markets, so that regional integration did not encourage increased foreign direct investment, as it did in the European Community.

69. An analysis of inflows of foreign direct investment into these groupings does not provide any evidence that would conclusively link these inflows to integration efforts. Data on inflows of foreign direct investment into the five groupings are presented in table 5. The data for the Andean Pact indicate that, within the first decade of its operation, foreign-direct-investment flows to the region fell by almost 50 per cent, while flows to Latin America as a whole rose by over 70 per cent. As a result, the Andean share in all Latin American foreign-direct-investment inflows fell from 6.4 per cent in 1971-1975 to 2 per cent for the period 1976-1980. Whether this decline was influenced by other factors, such as greater instability within the region or the restrictive nature of the foreign-direct-investment régime (as foreign investors perceived it) is unclear. However, after individual member States relaxed some of the foreign-direct-investment restrictions imposed by Decision 24 in the early 1980s, the average annual flows of foreign direct investment to the region increased to $810 million in 1981-1985 compared to $85 million in 1976-1980, and the Andean Pact share in total Latin American foreign-direct-investment inflows rose to 14 per cent. In 1987, Decision 24 was replaced with the more liberal Decision 220. Between the periods 1981-1985 and 1986-1988, foreign-direct-investment flows to the region fell again, by almost 26 per cent, to $595 million annually. With respect to ASEAN, foreign-direct-investment flows to the region have increased significantly over the past two decades: from $158 million annually in 1965-1970 to $3,014 million in 1981-1985. In 1986-1988 they fell by almost 8 per cent to $2,775 million. The share of ASEAN countries in foreign-direct-investment inflows to Asia reached its highest level in the period 1971-1975 (73 per cent) and since

Table 5. Foreign-direct-investment inflows into integration groupings of developing countries and regions, annual averages

Regional groupings and regions	1965-1970	1971-1975	1976-1980	1981-1985	1986-1988
			A. Value		
			(Millions of dollars)		
Andean Common Market	68.1	170.8	85.4	810.8	595.3
ASEAN	158.1	790.5	1 547.2	3 014.3	2 774.9
CARICOM	183.4	220.6	215.2	227.7	153.6
Maghreb	96.8	49.9	364.7	259.6	118.7
PTA	..	..	228.1	213.6	284.7
Developing countries	1 304.8	4 494.5	8 335.8	13 627.4	21 833.5
Latin America and the Caribbean	807.6	2 654.4	4 581.2	5 837.9	9 323.5
Asia	228.1	1 083.8	2 509.8	5 378.2	9 370.4
Africa	269.1	586.1	1 055.4	2 236.3	2 992.7
			B. Percentage share in regional inflows		
Percentage share of the Andean Common Market in Latin America	8.4	6.4	1.8	13.8	6.4
Percentage share of ASEAN in Asia	69.0	72.9	61.6	56.0	29.8
Percentage share of the Maghreb in Africa	35.9	8.5	34.6	11.6	3.9
Percentage share of CARICOM in Latin America	22.7	8.3	4.7	3.9	1.6
Percentage share of PTA in Africa	..	..	21.6	9.6	9.5

Source: International Monetary Fund, balance of payments tapes, October 1989.

then it has declined to 30 per cent in 1986-1988. The significant absolute increase of foreign direct-investment-inflows into the ASEAN countries can be attributed, in large measure, to the overall political stability and dynamic expansion of the region and other factors, rather than to the emergence of ASEAN as an important tool of economic policy (or foreign-direct-investment policies) for its members. Japan, Canada, the European Community member countries and, to a lesser extent, the United States have been the major sources of foreign investment capital in the region.

70. Data on CARICOM indicate a declining trend in foreign-direct-investment flows to the region in the 1970s. The inflows rose in the early 1980s and fell substantially again in the later years. Regarding the PTA in Africa, the data suggest that although foreign direct investment in the region increased by almost 25 per cent from the 1976-1980 period to the 1986-1988 period, the share of PTA in total foreign-direct-investment inflows into Africa fell from 22 per cent to 10 per cent.

71. The data on the Maghreb indicate a very uneven trend. Foreign-direct-investment flows to this region reached their peak in the 1976-1980 period, amounting to $365 million annually, and since then they declined, leading to the decrease of Maghreb countries' share in the total inflows of foreign direct investment to Africa (see table 5).

C. Conclusions and policy implications

72. A few general conclusions may be drawn from the above analysis. Although regional integration may have led to an increase in intraregional trade (as is evident from the Andean case in the initial phase of the integration strategy), this appears to have been temporary and did not increase the importance of intraregional trade in the total trade of member countries. There is also no specific evidence to link the observed trends in foreign-direct-investment flows into these regions with economic integration. It is likely that other economic and socio-political factors not directly related to integration (such as levels of economic development, political stability, the debt crisis and the world market prices for oil and primary products) were more important in influencing foreign-direct-investment activities within the member countries of these groupings.

73. Unlike current integration plans of developed countries, the integration schemes of developing countries - despite some achievements in the past - appear to be stagnating. Major obstacles to progress are not only economic but also political and structural. They have led to delays in implementation or the inability of these groupings to agree on trade liberalization programmes, regional industrial programmes or the formulation of other common regional policies. Given the several objective problems inherent in the regional economic integration schemes of developing countries, it would be unrealistic to expect quick results comparable to those achieved by the European Community; it would be equally unrealistic to make a final judgement regarding the success or failure of these integrative systems.

74. A few observations can be made regarding possible improvements to regional integration schemes. Firstly, regional policies should be better integrated with existing national development policies of member States. Secondly, policy-makers and investors in member States should view industrialization programmes from a regional rather than a national perspective in order to avoid duplication and to achieve complementarity in regional industrial production. Thirdly, planners of integration schemes should view economic integration as a long-term process allowing national economies sufficient time to make the required structural adjustments. Fourthly, a pre-condition for progress in integration is political co-operation and consensus, which may sometimes require that a part of economic sovereignty is relinquished. Finally, when searching for new integrating measures, the promotion of integration at the firm level should not be neglected. Joint ventures among firms from different member countries may be a useful form of such integration (see E/C.10/1990/18). To turn plans for regional economic integration into a reality, adequate information at the firm level is essential in order to create the conditions by which institutional arrangements for integration can be established by market operators.

Notes

1/ J.-J. Servan-Schreiber, The American Challenge (New York, Avon Books, 1967), p. 35.

2/ E. M. Graham and P. R. Krugman, Foreign Direct Investment in the United States (Washington, D.C., Institute for International Economics, 1989).

3/ Ibid., pp. 60 and 61.

4/ Jack Schmuckli, Chairman of Sony Europa, as quoted in the Financial Times, 2 October 1989, p. 18.

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RECENT DEVELOPMENTS RELATED TO TRANSNATIONAL CORPORATIONS AND INTERNATIONAL ECONOMIC RELATIONS

Transnational corporations and development: policies to stimulate the transfer of investment capital, technology and skills to developing countries in the 1990s

Report of the Secretary-General

SUMMARY

Throughout the 1980s, developing countries instituted policy changes with the objective, whole or partial, of making their economies more attractive to foreign direct investment by transnational corporations. Those policy changes have had, at best, mixed success. The Commission may, therefore, wish to take a more active role in discussing, perhaps on a country basis, ways and means to encourage the transfer of investment capital, technology and skills to developing countries and to co-ordinate the policies of host countries, home countries and international organizations. The Centre could facilitate the process by preparing country assessment studies which could also serve as a basis for technical co-operation programmes.

* E/C.10/1990/1.

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1. At its fifteenth session, the Commission on Transnational Corporations requested the United Nations Centre on Transnational Corporations to analyse foreign direct investment in developing countries and recommend ways and means of increasing the operations of transnational corporations in those countries, in such a way as to contribute to their economic, social and technological development. 1/ The present report has been prepared as an initial response to that request.

2. The major task of developing countries, with assistance from developed countries and international organizations, is to regain the momentum for economic development that lagged during the 1980s. What seems clear is that, since transnational corporations are assuming an important and growing role in world-wide economic growth, they must play an important role in economic development in the 1990s. This is all the more important because growth prospects are bleak, and new investment opportunities are emerging elsewhere - e.g., in the single European market to be completed by the end of 1992, Eastern Europe and the Union of Soviet Socialist Republics.

3. The greater scope being given to market forces and the renewed attention being paid to private capital have been reflected in a wide range of policy initiatives, undertaken by host developing countries, designed to stimulate the flow of investment capital, technology and skills to developing countries. Despite those policy changes, however, there are only a few developing countries that have experienced increased inflows of foreign direct investment. One has to conclude that host country policies themselves are not sufficient and should, therefore, be combined with policies of developed countries and international organizations and structured so as to co-ordinate with the changing strategies of transnational corporations. Furthermore, present host country policies may need to be reformulated.

4. It seems clear that an analysis and possible re-formulation of development strategies for the 1990s must include, as an important component, the role played by foreign direct investment in the economic development of developing countries. The analysis of that role should focus on the four major actors - transnational corporations themselves; host countries; home countries; and international organizations - and how their interactions enhance the positive contribution transnational corporations can make to development.

5. The Commission on Transnational Corporations is the focal point within the United Nations system for analysing the whole range of issues relating to transnational corporations and economic development. Within the framework of that mandate, the Commission may wish to pay greater attention to analysing and monitoring the impact of specific foreign direct-investment policies by host and home countries and international organizations and the actions of transnational corporations that affect host developing countries. Among the issues which could be included in such analysis and monitoring are:

(a) The role of regulations, administrative arrangements and host country monitoring mechanisms as they relate to transnational corporations;

(b) Investment promotion programmes;

(c) Transfer of technology issues;

(d) The treatment of transnational corporations by host countries;

(e) The role of home country measures that encourage foreign direct investment in developing countries;

(f) The role of international agencies;

(g) The role of transnational corporations in integrating developing countries into the world economy.

6. Such analyses could, perhaps, be regularly conducted by the Commission on Transnational Corporations, on a country-by-country basis, for countries that wish to participate in the process. The assessments could be conducted against the background of the needs, objectives and economic realities of each country, with a view to assessing the effectiveness of past actions, and develop criteria for formulating future policies. At the same time, they could form the basis of comprehensive country-oriented technical co-operation programmes.

7. To facilitate such an analysis, the Centre could provide a conceptual framework, to be used as a benchmark, and begin the necessary work for a pilot assessment study. The study, to be conducted in consultation with all interested parties, could be ready for the Commission to examine at its seventeenth session in 1991.

Notes

1/ Official Records of the Economic and Social Council, 1989, Supplement No. 10 (E/1989/28/Rev.1), chap. I.A.